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Financial reports and audited financial statements, and reports of the Board of Auditors

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2012-2013 and annual financial periods 2012 and 2013

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to resolution 47/211, a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors on its audit of accounts for the financial periods ended 31 December 2012 and 31 December 2013.

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Letters of transmittal

Letter dated 30 June 2014 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you a concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2012-2013 and annual financial periods 2012 and 2013.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

Letter dated 30 June 2014 from the Chair of the Board of Auditors addressed to the Secretary-General

I have the honour to transmit to you the concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its sixty-ninth session.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

Abbreviations

ITC	International Trade Centre
IPSAS	International Public Sector Accounting Standards
MICT	International Residual Mechanism for Criminal Tribunals
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UN-Habitat	United Nations Human Settlements Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNITAR	United Nations Institute for Training and Research
UNJSPF	United Nations Joint Staff Pension Fund
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNU	United Nations University
UN-Women	United Nations Entity for Gender Equality and the Empowerment of Women

Concise summary of the principal findings and conclusions contained in the reports of the Board of Auditors for the biennium 2012-2013 and annual financial periods 2012 and 2013

Summary

The General Assembly, in its resolution 47/211, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by the relevant entities. The findings and conclusions included in the present report relate to the common themes and major deficiencies identified in the Board's reports addressed to the General Assembly on 19 entities plus the United Nations peacekeeping operations (see annex I). The Board also draws on its reports on stand-alone topics in the same period. The detailed findings and recommendations related to individual entities are contained in their separate audit reports.

Key points

In summary, the key points drawn out in this report are as follows:

Audit opinions

- The Board of Auditors has audited the financial statements and reviewed the operations of 19 organizations plus the United Nations peacekeeping operations. There were no qualified opinions. Two emphases of matter were reported in 2012, but were resolved in 2013. The Board notes a continuing improvement in the preparation processes related to financial closure and financial statements.

Implementation of the International Public Sector Accounting Standards

- The adoption of IPSAS as at 1 January 2014 across all entities in the Board's portfolio represents a significant achievement. The entities going live in 2014 still face challenges, and the Board will be able to report only in 2015 whether they have successfully delivered IPSAS-compliant financial statements. Initial progress in developing structured benefits realization plans was slow, but there has been noticeable progress in 2013. Implementation of IPSAS is driving an improvement in financial management skills and capacity at all levels.

Enterprise risk management

- The Board, while noting that some entities are at a more advanced stage than others, has previously reported its concern that United Nations entities do not operate an approach to enterprise risk management. While acknowledging that implementing a system of enterprise risk management is a challenging endeavour, progress has been slow. While work is still in progress, the United Nations Management Committee has made significant progress through the identification of six key strategic risks, the development of governance arrangements to manage the risks, and the establishment of department-specific risk registers.

Managing globally dispersed operations

- Many of the entities in the Board's portfolio operate through large field office networks. The Board continues to note problems in striking the right balance between providing sufficient flexibility and authority to the field versus the right level of monitoring, intervention and oversight by Headquarters functions. This is a theme that has emerged again over the biennium, for example, at UNODC, UN-Women, and in peacekeeping operations.

Budgets

- The budget in any organization is a key tool for deciding how resources will be allocated to deliver its strategic objectives. The United Nations uses the regular budget to agree the financial envelope within which the Organization, or each department or business unit, must operate. However: the budget offers limited value as a management tool at a strategic and operational level; it consumes too many resources for the level of change and strategic value it offers the Organization; and it is not built on an accurate understanding of the actual costs of delivery.

Financial management

- A clear classification between administration and programme costs is the basis for effective cost management. Most entities do not currently analyse their total cost base in this way, meaning that it is difficult to establish the proportion of resources being used to deliver frontline activities.
- Adoption of IPSAS and the introduction of enterprise resource planning systems offer a valuable opportunity to produce regular and systematic financial performance information for use by management. All entities have made progress in this regard, and many have plans for continued improvement and refinement of their financial management reporting.
- In most entities the value of end-of-service liabilities continues to increase (particularly after-service health insurance costs), reflecting updated management assumptions on life expectancy, health-care costs and the discount rates used in actuarial valuations. However, only a few entities have developed a plan to fund those liabilities, increasing the risk that escalating costs could have a detrimental impact on the delivery of mandates in the future.

Implementing partners

- Implementing partners are a critical part of the service delivery model of many United Nations organizations. Action has been taken at the entity level to strengthen the management system for working with implementing partners. However, there is work still to be done to establish a more risk-based approach to the selection, monitoring and close-out of projects delivered by implementing partners. For example, there is no requirement to share information on the performance of implementing partners across United Nations entities. This limits the ability of entities to reward good performance with further contracts, to incentivize implementing partners who perform poorly to demonstrate improvement, and to avoid engaging implementing partners suspected of being, or proven to have been, engaged in fraudulent activity.

Awareness of fraud

- Given the scale and complexity of global activity undertaken by many entities and the high-risk environments in which that activity takes place, the level of reported fraud is unlikely to reflect either the level or nature of the fraud risks faced.

- The Board notes that two of three entities examined (the United Nations and UNHCR) lack an integrated strategy to counter fraud and have not assessed their potential exposure to fraud. In the United Nations, in particular, the fragmentation of existing policies, procedures and guidance may deter or delay staff from reporting or addressing fraud.

- Most entities have investigation units, but they are limited in the extent to which they can pursue systematic fraud across organizational boundaries. Coordination of investigative capacity is limited, and the Board therefore encourages the United Nations system to consider the establishment of a system-wide unit to counter fraud that is equipped and trained to tackle fraud on behalf of all entities.

Skills in core business services

- While not material, the Board continues to note continuing issues with non-compliance in important business functions. The issues with compliance are also explained by skills gaps across entities in human resource management, asset management, procurement and contract management, and management of information and communications technology. These are all important business functions that are vital to the cost-effective delivery of the activities of the entities concerned.

Business transformation in the United Nations

- The United Nations is in the midst of a number of major business transformation activities, including the implementation of a new enterprise resource planning system (Umoja) and IPSAS. While recognizing the challenge of simultaneously implementing major business transformations in the complex, highly federated, and diverse environment of the United Nations, the Board has continued to highlight a number of common themes, such as: the need for an agreed and articulated vision for change; a realistic and holistic assessment of the ability of the United Nations to absorb change and deliver its ongoing mandates; more effective governance and accountability, and benefits management; and improved programme and project management.

Status of implementation of recommendations

- The Board considers the full implementation rate of 56 per cent for all 19 entities, 21 months after reporting, to be evidence of strong management commitment, although the percentage is lower compared with 2008-09 (65 per cent). A further 40 per cent of recommendations (28 per cent in 2008-09) were under implementation, leaving 2 per cent on which management made no progress, and 1 per cent which were overtaken by events.

A. Scope and mandate

1. The General Assembly, in its resolution 47/211, invited the Board of Auditors to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by the relevant entities. The findings and conclusions included in the present report relate to the common themes and major deficiencies identified in the Board's reports in 2012 and 2013 addressed to the General Assembly on 19 entities plus the United Nations peacekeeping operations (annex I).[1] The Board also draws on its reports on stand-alone topics in the same period. The detailed findings and recommendations related to individual entities are contained in their separate audit reports. The contents of the Board's reports to the Security Council and other governing bodies are not included.

2. From 2014 onwards, as agreed by the General Assembly in its resolution 68/19, the Board will issue its concise summary on an annual basis to reflect that all entities in its portfolio will have implemented IPSAS and will be reporting annually.

3. On 27 January 2014, the Chairman of the Advisory Committee on Administrative and Budgetary Questions, in the context of resolution 68/19, requested the Board to continue to provide information in its future reports on cross-entity issues, namely, the need for:

- Enhanced control and monitoring over implementing partners owing to the potential for abuse by third parties' executing activities on behalf of United Nations entities
- Strengthened core business functions, such as procurement, contract management, and financial and budgetary management, through enhanced staff skills
- Enhanced oversight, accountability and governance for globally dispersed operations and the achievement of an optimal balance between decentralized delegated authority and the appropriate level of monitoring and control by the respective Headquarters offices.

4. The Board has continued to report on cross-entity issues within its entity-level reports. It also includes commentary in this summary report on accountability and governance for globally dispersed operations (sect. D), on implementing partners (sect. G), and on staff skills relating to core business functions (sect. I).

B. Audit opinions

5. The Board of Auditors has audited the financial statements and reviewed the operations of 19 organizations plus the United Nations peacekeeping operations (see

[1] To better support the General Assembly in its governance role, the Board includes peacekeeping operations in the present report to provide a more comprehensive picture of major deficiencies identified in its reports. The peacekeeping operations have an annual financial cycle ending 30 June, and therefore the figures related to those operations are as at that date unless otherwise indicated. From 2012, nine entities in the Board's portfolio implemented IPSAS and now prepare financial statements on an annual basis. The present report summarizes the findings for those entities across both 2012 and 2013.

annex I), in accordance with General Assembly resolution 74 (I) of 7 December 1946. The Board has issued short-form reports reflecting its audit opinions together with long-form reports, which contain detailed findings and recommendations arising from each audit (annex II contains a description of the types of audit opinions).

6. The Board issued 30 audit opinions during the biennium 2012-2013 (see table 1). The key points to note are:

- All eight of the entities that implemented IPSAS in 2012 received an unmodified opinion again in 2013.
- All 10 entities that reported on a biennial basis for 2012-2013 under the United Nations system accounting standards received unmodified audit opinions. From 2014 onwards, and on an annual basis, all 10 entities will be reporting under IPSAS.
- Peacekeeping operations reporting under the United Nations system accounting standards had unmodified opinions in both years. The financial statements for peacekeeping operations for the period ended 30 June 2014 will be produced under IPSAS.

7. The Board notes a trend of continuing improvement in the preparation processes related to financial closure and financial statements.

Table 1

Types of audit opinions issued by the Board for the current reporting period compared with previous periods

	2013			*2012*			*2010-2011*		
Organization	*Unmodified opinion*	*Qualified opinion*	*Emphasis of matter or other matter*	*Unmodified opinion*	*Qualified opinion*	*Emphasis of matter or other matter*	*Unmodified opinion*	*Qualified opinion*	*Emphasis of matter or other matter*
United Nations[a]	X				–		X		
Peacekeeping operations[b]	X			X			X		
ITC[a]	X				–		X		
MICT[d]	X				–			–	
UNCDF[d]	X			X				–	
UNDP[c]	X			X			X		
UNEP[a]	X				–		X		
UNFPA[c]	X			X			X		
UN-Habitat[a]	X				–		X		
UNICEF[c]	X			X		X	X		
UNITAR	X				–		X		
UNHCR[c]	X			X			X		
UNJSPF[c]	X			X			X		
UNODC[a]	X				–		X		
UNOPS[c]	X			X			X		
UNRWA[c]	X			X		X	X		X
UNU[a]	X				–		X		
UN-Women[c,d]	X			X				–	
International Criminal Tribunal for Rwanda[a]	X				–		X		
International Tribunal for the Former Yugoslavia[a]	X				–		X		
Total	**20**			**10**	**0**	**2**	**17**	**0**	**1**

[a] Biennial reporting period ended 31 December 2013.

[b] Twelve-month period ended 30 June.

[c] Annual reporting period ended 31 December 2012 and 31 December 2013 following IPSAS implementation.

[d] The first year of accounting for MICT was 2013; the first year of accounting for UN-Women and UNCDF was 2012.

C. Implementation of the International Public Sector Accounting Standards and realization of benefits

8. In accordance with General Assembly resolution 61/233 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions regarding the adoption of IPSAS (see A/65/782, paras. 18 and 19), the Board has continued to assess the status of implementation of IPSAS within its entity-level reports and also in an overall progress report. The fourth progress report (A/69/155) will be the last such report, as from 2014 all United Nations entities should have implemented IPSAS.

9. The adoption of IPSAS across all entities in the Board's portfolio represents a significant achievement. It demonstrates management's commitment to more complete, transparent, timely and effective financial reporting, and the active management of a challenging transformation programme. The entities going live in 2014, however, still face challenges, and the Board will be able to report only in 2015 on whether they have successfully delivered IPSAS-compliant financial statements.

Realization of benefits from the implementation of the International Public Sector Accounting Standards

10. While the delivery of IPSAS-compliant financial statements will be a noteworthy achievement, the ultimate test of success will be the delivery of the intended benefits. This is why the Board has stressed the need for clear benefits realization plans. While initial progress was slow, there was real progress across a number of entities in 2013 in developing and implementing improvement plans. Benefits are also being seen in financial reporting to senior management (UNHCR, UN-Women, UNICEF and UNRWA) and investment in financial management skills for finance and operational staff (UNDP, UNFPA, UNHCR and UNICEF). The United Nations has developed an approved IPSAS benefits plan which it will use along with the other entities it supports that are going live in 2014. Other entities (UNHCR, UNICEF, UNJSPF, UN-Women, UNDP and UNCDF) have implemented benefits realization plans with clearly defined mechanisms to identify and track benefits. The frameworks now in place will enable tangible benefits to be reported in the next 12 to 18 months.

11. The Board has stressed how new IPSAS-based information should enable improvements in important business functions. The United Nations strategic capital review[2] is cited as one example of how improved asset information, generated to support IPSAS implementation, is enabling the Administration to more effectively analyse and plan its capital maintenance programme across its global property estate.

[2] The strategic capital review seeks to provide an informed understanding of future capital requirements and approaches to asset management (A/68/733).

D. Financial management

Indicators of financial sustainability

12. Where information has been available, the Board has used ratio analysis of assets and liabilities to assess financial sustainability and liquidity across United Nations e ities. In general, a ratio of 1:1 is considered to be a sound indicator of financial sustainability.

13. All seven entities reporting under IPSAS since 2012 can demonstrate their financial sustainability, as they have more than sufficient assets to cover their immediate and longer-term liabilities (see table 2). In addition, six of the seven entities are able to demonstrate their liquidity to meet liabilities, as their cash ratio exceeds 1:1. For UNRWA, the cash ratio is less than 1:1. The Board has confirmed, however, that UNRWA is able to meet its immediate liabilities as they fall due. For UNHCR, the current ratio is sufficiently high to warrant further review of whether operational requirements justify a level of assets which is that far above the level of liabilities. For UN-Women, the liquidity ratios are relatively high because it received significant contributions of $37 million towards the year end, and those were held in cash and investments as at 31 December 2013.

Table 2
Ratio analysis: entities reporting under the International Public Sector Accounting Standards as at 31 December 2013

	UNOPS	*UNHCR*	*UNICEF*	*UNDP*	*UNRWA*	*UN-Women*	*UNFPA*
Current ratio[a]							
Current assets: current liabilities	0.73	8.7	3.2	4.41	2.41	8.9	2.9
Total assets: total liabilities[b]	1.08	3.2	2.1	3.38	1.35	4.7	4.6
Cash ratio[c]							
Cash + short-term investments: current liabilities	1.09	3.5	1.79	3.86	0.42	7.2	4.2
Quick ratio[d]							
Cash + investments + accounts receivable: total liabilities	1.07	2.2	1.44	4.08	0.31	7.6	0.7

Source: Board analysis of financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash; cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

14. The Board has conducted a similar analysis for those entities still reporting under UNSAS (see table 3). Those entities cannot be directly compared with those

in table 1 as they do not fully report their assets and liabilities. However, based on the available information on assets and liabilities, the four entities can demonstrate their financial sustainability and liquidity to meet reported liabilities. Each of the entities has a cash ratio of greater than 1:1, showing their liquidity to meet liabilities that arise in the short term.

Table 3
Financial ratio analysis for entities reporting under the United Nations system accounting standards as at 31 December 2013

	United Nations	*UNODC*	*UN-Habitat*[a]	*ITC*	*UNEP*[b]
Current ratio					
Current assets: current liabilities	2.14	4.8	–	3.44	–
Total assets: total liabilities	1.27	3.6	3.1	0.85	1.96
Cash ratio					
Cash + short-term investments: current liabilities	1.85	3.3	1.69	2.74	–
Quick ratio					
Cash + investments + accounts receivable: total liabilities	0.78	2.5	1.94	0.70	1.59

Source: Board analysis of financial statements.

[a] UNEP and UN-Habitat financial statements do not categorize information in a way that enables a comparative calculation of current ratio.

[b] UNEP financial statements do not categorize information in a way that enables a comparative calculation of cash ratio.

Improving financial management

15. Renewed training and updated documentation of policies and procedures, linked to the implementation of IPSAS across the United Nations, has helped improve financial management skills, capacity and staff understanding at all entities. Entities face challenges in recruiting staff with a thorough knowledge of IPSAS, and need to consider the adequacy of their training and resourcing strategies to maintain the level of accounting expertise required.

16. While there is no evidence yet of a wider initiative to transform and modernize the role of the finance function, there is encouraging evidence of enhanced financial management and ongoing improvement initiatives at all entities following the adoption of IPSAS. Of particular note, UNICEF, UNFPA and UNDP are offering to a significant number of staff an internationally recognized public sector and IPSAS-orientated Finance Training and Certification Programme in partnership with the Chartered Institute of Public Finance and Accountancy. The aim is to further develop knowledge and skills in financial management for staff who work in finance or are engaged in the management and oversight of financial resources. The training programme started for the first cohorts of staff in 2014. This is an initiative that might be considered useful by other entities.

17. In the meantime, where entities have adopted IPSAS there is clear evidence of increased rigour in financial management processes engendered by the Standards. For example:

- UN-Women introduced a range of new financial processes and guidance, shifting responsibility and accountability for financial management functions to country offices, allowing headquarters to play a more effective oversight and quality assurance role. This is transforming the financial management and business processes of UN-Women, improving both management and donor reporting.
- UNFPA has automated the preparation process of its financial statements, which is enabling management to spend more time reviewing, rather than preparing, the financial statements.

Better financial information for management

18. The adoption of IPSAS, and the resultant changes to enterprise resource planning systems, offers a valuable opportunity to produce regular and systematic financial performance information for use by management. All entities have made progress in this regard, and nearly all entities provide some form of enhanced information to management on a monthly and quarterly basis. Many also have clear plans for continued improvement and refinement of their financial management reporting to management, for example, UNHCR, UNRWA and UNICEF.

19. Entities moving to IPSAS in 2014 do not yet systematically produce in-year financial information, although the United Nations has started to provide its Management Committee with quarterly reports on cash and investment holdings, and analysis of key financial performance ratios.

Transparent reporting of administrative and programme costs

20. While there are pockets of good practice, more generally across many entities, neither the financial statements nor the underlying financial reporting data analyse the level of administrative expenditure incurred within the budgets of front-line activities. There is also no way to identify the level of administrative expenditure incurred in the delivery of extrabudgetary activities.

21. United Nations system entities need to have effective cost-management systems to ensure effective delivery of their mandates. The reduction in core funding from Member States, both in absolute terms and as a percentage of total income across entities, and the increasing use of ring-fenced voluntary funding, increases the need to monitor and contain administrative costs.

22. Reliable and complete financial and management information, as well as clear cost classification between administration and programme costs, are the basis for effective cost management. However, most entities do not currently systematically analyse their total cost base between programme and administrative expenditure categories. For example:

- The United Nations allocates its regular budget costs across its activities, including administrative functions, such as common support services and administrative activities; but it cannot clearly identify programmatic costs from administrative costs.

- UNOPS does not have comprehensive information on costs, and it does not always separate elements of programme costs from direct administrative expenses charged to projects, such as office rent, accounting services and other support. Indirect administrative expenses ("management expenses") are monitored, but administrative costs can be treated inconsistently.
- At UNICEF, the level of direct programme support costs varies across country offices and programmes/implementing partners. The variations need to be better understood as they indicate opportunities to improve efficiency across operations.

23. There has been progress among some entities, such as UNODC and UNHCR, to identify more clearly the split between administration and programme costs. More complete cost information, driven by IPSAS and new enterprise resource planning systems, offers the potential for United Nations entities to better understand the costs of their activities. This will be vital as it is likely that fiscal pressures and changes in funding methodologies will continue, increasing the pressure to manage administrative overheads as tightly and transparently as possible. Until entities have better information on administrative and programme costs, they cannot provide assurances to Member States on the efficiency and effectiveness with which they use the financial resources provided to them. This will constitute an area of focus for the Board in future audits.

End-of-service liabilities

24. The Board has continued to review the actuarial valuation of accrued end-of-service and post-retirement liabilities and to monitor progress in management of those liabilities, as summarized in table 4. The increases generally reflect updated management assumptions on life expectancy, health-care costs and the discount rates used in actuarial valuations. While more entities are fully disclosing their end-of-service liabilities, increasing visibility of the general level of growth, only a few entities have developed a funding plan for those liabilities. Without such a plan, entities will face the risk that escalating costs could have a detrimental impact on the delivery of mandates in the future.

Table 4
End-of-service liabilities in the United Nations and its funds and programmes (where comparative data is available)

(Thousands of United States dollars)

	End-of-service liabilities			*Including after-service health insurance of*			*Method of disclosure*			
Organization	*2013*	*2011*	*Increase (percentage)*	*2013*	*2011*	*Increase (percentage)*	*Full*[a]	*Partial*[b]	*Note*[c]	*Lack of funding plan*
United Nations	3 592 254	3 214 813	12	3 223 015	2 916 305	11	x			x
Peacekeeping operations	1 183 133	958 431	23	896 991	768 750	17	x			x
ITC	62 146	60 116	3	55 922	54 839	2	x			x
UNCDF[d]	12 828	–	–	7 899	–	–				
UNDP	954 622	984 687	-3	858 155	826 538	4		x	x	x
UNEP	113 888	102 111	12	84 725	77 216	10	x			x
UNFPA	259 331	195 132	33	209 399	163 289	28	x			

Organization	End-of-service liabilities			Including after-service health insurance of			Method of disclosure			Lack of funding plan
	2013	2011	Increase (percentage)	2013	2011	Increase (percentage)	Full[a]	Partial[b]	Note[c]	
UN-Habitat	24 687	23 292	6	17 805	17 439	2	x			x
UNICEF	922 569	921 563	0	816 022	783 172	4			x	
UNITAR	6 404	4 904	31	4 897	3 720	32	x			
UNHCR	530 053	482 918	10	417 590	350 773	19	x			
UNJSPF	56 319	48 314	17	51 174	44 868	14	x			
UNODC	43 870	42 232	4	29 109	30 178	-4	x			x
UNOPS	66 570	57 027	17	50 427	39 900	26		x	x	
UNRWA[e]	491 717	34 109	1 342	2 727	481	476		x		x
UNU	12 063	9 780	23	8 381	6 684	25	x			
UN-Women	52 605	37 600	40	36 191	27 400	32		x	x	x
International Criminal Tribunal for Rwanda	74 943	86 574	-13	40 895	43 318	-6	x			x
International Tribunal for the Former Yugoslavia	71 703	69 739	3	28 544	26 959	6	x			x
Total	**8 518 877**	**7 333 342**	**16**	**6 831 969**	**6 181 829**	**11**	**13**	**4**	**1**	**11**

[a] Fully presented on the face of the financial statements.
[b] Partially presented on the face of the financial statements.
[c] Not fully presented on the face of the financial statements but fully disclosed in the notes.
[d] UNCDF did not produce financial statements in 2011.
[e] In 2011 UNRWA was reporting under the United Nations system accounting standards; therefore, most end-of-service liabilities were not reported in the financial statements.

E. Governance, accountability and risk management

25. To deliver the objectives of an organization, management needs to establish an effective system of governance and internal control. Anything that threatens the delivery of the objectives needs to be identified and actively managed, which is why an organization-wide approach to risk management is of fundamental importance.

Enterprise risk management

26. Enterprise risk management is a process, led by senior management but involving every member of staff, applied in setting strategy across an organization. It is a systematic process through which risks and opportunities, that affect an organization and its ability to achieve its objectives, are identified, prioritized and managed. Enterprise risk management drives good internal control and organizational responsiveness. Implementing a system of enterprise risk management is a challenging endeavour that requires visible leadership from senior management.

27. The Board, while noting that some entities are at a more advanced stage than others, has previously reported its concern that some United Nations entities do not operate an approach to enterprise risk management. It has recommended that

organizations such as the United Nations, UN-Habitat, UN-Women, UNEP, UNODC, UNOPS and UNHCR implement such a system.

28. UNODC, working closely with the United Nations, has made positive progress in developing a local enterprise risk management approach. It is developing a corporate risk management framework, and risk management is now a regular agenda item for the Management Coordination Committee, which comprises directors and senior managers from across the organization. UNODC is further refining corporate risk registers and is developing its risk reporting arrangements, including risk dashboards.

29. The United Nations Management Committee has also made significant progress by identifying six key strategic risks, governance arrangements to manage the risks, and the establishment of department-specific risk registers. While still a work in progress, the enterprise risks form the basis for the development of a vital strategic management tool that can be easily integrated with the organization's strategic objectives and "business as usual" processes.

30. UNOPS has developed a theoretical framework for a good risk management system, but must now establish clear procedures for implementing enterprise risk management in practice. The Office is currently preparing a revised entity risk management directive and corporate risk registers to help assess and monitor the risks to the achievement of its objectives.

31. Progress in improving the enterprise risk management framework of UNHCR has been disappointing, despite the organization's risk exposure and attempts to establish a risk management approach in response to previous Board recommendations in 2011. The Board considers that this issue has not been given appropriate senior management attention.

Managing globally dispersed operations

32. The United Nations and its funds and programmes have evolved as decentralized organizations. Many operate devolved field networks and rely on third parties to deliver large parts of their mandates, often in some of the most challenging environments in the world. This has over time created a complex network of organizations, reporting lines and relationships, where accountabilities are often unclear.

33. It is vital, in order to deliver important mandates and secure value for money from the use of increasingly scarce public resources, that the United Nations and its funds and programmes operate to the highest standards of modern governance, accountability and transparency.

34. The Board has previously noted problems in striking the right balance in providing sufficient flexibility, responsive and delegated authority to the field versus the right level of monitoring, intervention and oversight by headquarters functions. This is a theme that has emerged again over the biennium, for example, at UNODC and in peacekeeping operations.

35. While not material, the Board continues to note examples of non-compliance (for example, at UNFPA, UNDP and UN-Women) in areas such as payroll, human resources, and procurement. Many of these examples were identified at the field level, which raises questions as to whether: (a) staff have the necessary skills to

perform their role effectively; (b) local management are taking sufficient responsibility for oversight and control; and (c) there is a need for headquarters functions to exert greater control.

36. The difficulties associated with managing globally dispersed operations have also been demonstrated by the significant difficulties faced during the initial implementation of the United Nations enterprise resource planning system. These were caused primarily by the level of divergence of existing processes, both across organizational units and from the modern processes designed and embedded in the new system, and the lack of business readiness to shift to new ways of working.

37. In this context, an enhanced control environment is a sensible way of reducing financial risk and increasing the chance of achieving value for money. The challenge for managers is to revisit and reset the system of governance and accountabilities, removing mismatches between accountability and authority, reducing the overreliance on transactional levels of control, building meaningful and practical risk-based approaches to secure management assurance over the use of public funds in complex delivery chains, creating integrated financial and performance reporting focused on outcomes, and implementing organization-wide structured approaches to risk management.

38. At a more strategic level, administrations need to more systematically document their internal control frameworks to assess fitness for purpose and determine whether they are operating as intended. This is a theme the Board comments on again in its forthcoming report for the biennium 2012-2013 (A/69/5 (Vol. I)).

F. Budgeting

39. In any organization the budget is a key tool for deciding how resources will be allocated to deliver strategic objectives. Budgets should represent an articulation of an organization's priorities and aspirations and communicate management's view on the resources required to achieve them.

40. Most entities are finding the implementation of results-based budgeting challenging due to issues reported previously in linking outcomes to resources, and linking resources to activities and ultimately results. Budgets provide an agreed financial envelope within which an organization and each department or business unit must operate, but offer limited value as a management tool at a strategic and operational level if they are not built on an accurate understanding of the actual costs of delivery. For example:

- At UNICEF, the Board found insufficient justification for budgets with regard to advocacy and inter-country programmes. In addition, some budgets were not presented in a consolidated manner, limiting the governing body from obtaining an overall picture of the goals to be achieved or the financial resources required.
- At the United Nations, the budget follows an incremental "bottom up" approach that reinforces existing structures and systems by budgeting based on what things actually did cost, not what they could cost. The United Nations regular budget formulation process is also lengthy (16 months to approve) and

consumes a significant amount of time and effort, with little change biennium to biennium.

- At UNRWA, although field and headquarters implementation plans articulate the financial resources required for implementation of each objective, some objectives had not been allocated the financial resources required.
- In peacekeeping operations, while noting some improvements, the Board has identified: inconsistent and unrealistic budgeting methodologies; inconsistent application of key budget assumptions; and inadequate consideration of historical trends underpinning key assumptions. The Board also noted opportunities to improve the budget review process and the management of budget redeployments at both mission and Headquarters levels.

41. In addition to the integral part the budget plays in financial management and control, the Board also believes there is scope for administrations to increase the strategic value of the budget as a tool for management by:

- Establishing integrated performance and financial reporting, to improve accountability and transparency and the ability of organizations to demonstrate they are using resources cost effectively.
- Using the budget process as the means to embed new ways of working. For example, by reducing or increasing the level of budget for the entire organization, parts of the organization, or categories of expenditure (such as information and communications technology, estates or staff costs).
- Using the budget process to facilitate and incentivize cross-departmental working to reduce administrative or back-office support costs and reallocate resources into front-line activities.

G. Implementing partners

42. Implementing partners are a critical part of the service delivery model of many United Nations system entities. Implementing partners vary widely in terms of their size and role, ranging from: host Governments to other United Nations entities, and from large-scale multinational to smaller local non-governmental organizations. The types of projects and programmes delivered by implementing partners also vary in size, duration and cost.

43. The Board has raised concerns previously regarding the management of implementing partners and has continued its coverage of this important area. The Board's concerns are shared by the Joint Inspection Unit[3] and by a number of internal audit and oversight services. Although data on the funds allocated to implementing partners is incomplete, and definitions vary, the Board estimates there is at least $10 billion of expenditure via implementing partners. For some organizations a significant and growing proportion of their overall expenditure is via implementing partners. For example, in UNICEF this figure stands at 32 per cent of total expenditure, and for UNHCR, it is 40 per cent.

[3] See review of the management of implementing partners in United Nations system organizations (JIU/REP/2013/4).

44. A core principle of accountability is that when management passes funds to another organization, regardless of the type of partner, it should operate an effective governance regime to gain assurance that: the funds have been used for the purposes intended; the risk of fraud and error has been minimized; and that funds have delivered the desired outcomes cost effectively. Effective governance needs to be objectively demonstrated to donors to provide confidence that funding is being used appropriately and to good effect.

Progress in establishing more consistent ways of working

45. The Board concurs with the assessment of the Joint Inspection Unit that a large number of United Nations organizations lack a strategic framework on partnerships and have ad hoc and incoherent approaches in engaging with implementing partners. There are, however, emerging efforts among individual organizations to develop the institutional frameworks, policies, procedures, and guidelines, for the management of implementing partners.

46. This biennium has seen progress made by some United Nations entities in how they select, monitor and close out projects delivered through implementing partners. For example, UNICEF, UNHCR, the Office for the Coordination of Humanitarian Affairs, UNODC and UN-Women have developed, or are developing, guidance to ensure a more consistent approach across a globally dispersed network of country offices. Work still needs to be done in all entities, and to varying extents, to embed these approaches as part of a functioning management system, and to equip staff with skills in areas such as project assurance and monitoring, commercial and contracting, financial and data analysis, and operations management. While there is some evidence of sharing of best practice, the Board considers that more could be done to harmonize and coordinate control activities across different entities, especially where they are operating in the same environments and with the same implementing partners.

Harmonized approach to cash transfers

47. To reduce transaction costs for implementing partners and to strengthen financial management capacity, the United Nations Development Group, composed of UNDP, UNFPA, UNICEF and UNOPS, introduced the harmonized approach to cash transfers (HACT) in 2005. In November 2012, the group received an unsatisfactory joint audit review,[4] which concluded that internal controls and governance arrangements had either not been established or were not functioning well.

48. In its previous summary report, noting deficiencies in HACT in its entity-specific reports, the Board highlighted the need for the following three actions: a review of the HACT framework; a review of the entity-specific architecture to support HACT; and consistency and assurance regarding funds transferred to implementing partners.

49. In the biennium 2012-2013, the Development Group reviewed the HACT framework. It has started revising the framework and is developing a global strategy

[4] The audit was conducted by the Office of Internal Audit and Investigations of the United Nations Children's Fund (UNICEF), the Division for Oversight Services of UNFPA as lead auditor and the Office of Audit and Investigations of UNDP.

to strengthen its implementation and management. The Board continues to note problems with the implementation of HACT at the country level in UNICEF and UNFPA, and cautions against any expectation that the revised framework will be any easier to implement in practice.

Use of information

50. Good information is vital to management in making the right decision when approving a project and in selecting the partner to deliver it. At the Office for the Coordination of Humanitarian Affairs, UNHCR and UNICEF, information available to management did not consistently inform the selection process. More widely, United Nations entities often operate in the same regions, with many using the same third parties, but there is no formal requirement or mechanism for them to share information on prior performance by partners. While recognizing there can be some sensitivity with regard to the performance of host nation implementing partners, in the Board's view, not sharing information limits the ability of United Nations entities to reward good performance with more contracts, and incentivize those implementing partners who perform poorly to demonstrate improvement. It also increases the risk of entering into arrangements with partners suspected of or engaged in fraud.

Tackling fraud in relation to implementing partners

51. Of note in this biennium is the action taken by the Office for the Coordination of Humanitarian Affairs in response to concerns raised previously by the Board, and a series of suspected frauds in the Somalia Common Humanitarian Fund (reported on in the Board of Auditors report A/69/5 (Vol. I)). The Office has developed a risk-based approach to managing implementing partners, including vetting a partner's risk level, with high-risk partners less likely to be given projects. If approved, projects or partners deemed to be higher risk are subject to more intensive monitoring arrangements.

52. The fraud cases have arisen in funds managed by the Office for the Coordination of Humanitarian Affairs as part of a multi-agency pooled funds arrangement in Somalia. The cases involve the delivery of humanitarian projects by non-governmental organizations. The cases were identified through a combination of: (a) analysis by an innovative Risk Management Unit established to support 24 United Nations entities providing support and implementing programmes in Somalia, through improved risk assessments and improved decision-making; and (b) proactive investigation of known risks by the Office of Internal Support Services. The frauds identified affect not only the Office for the Coordination of Humanitarian Affairs, but also potentially other United Nations entities and donors, illustrating the cross-organizational boundary nature of the threats that determined fraudsters can pose. As the Board highlights, there is an urgent need to assess risks in other high-risk countries, and notes the establishment of a Risk Management Unit in Afghanistan.

53. The Board notes that at both the United Nations and UNHCR there is limited sharing of information on implementing partners, many of which contract with multiple United Nations entities. At least one of the implementing partners under investigation in relation to fraud against the Office for the Coordination of

Humanitarian Affairs in Somalia had been previously identified by another United Nations entity of suspected misappropriation of funds.

54. UNDP reported a number of cases of fraud and presumptive fraud to the Board, including one case involving suspected irregularities in National Implementation Modality procurement procedures affecting four projects in one country in Latin America. The details of the case are still under investigation by national authorities, and the Board will continue to monitor developments in close consultation with UNDP. As the projects are funded almost entirely from contributions by the national government, no significant losses are expected to be incurred by UNDP.

Lessons for administrations

55. The Board acknowledges the action taken at the entity level to strengthen the management system for working with implementing partners, while noting that there is still more to be done. The main lesson is that United Nations organizations should seek to exploit opportunities to work collectively and collaboratively to improve the cost-effective delivery of vital services to beneficiaries, for example, by:

- Establishing a risk-based approach to the management of implementing partners;
- Sharing information on implementing partner performance and using this as part of project selection;
- Sharing and even consolidating guidance across entities to manage what are essentially the same business processes and procedures, even if the projects vary greatly;
- Acknowledging the risk of fraud and collectively establishing an environment where the United Nations and its funds and programmes are a difficult prospect to defraud.

H. Awareness of fraud

56. Many United Nations entities operate in high-risk environments and are exposed to a wide range of different fraud risks, both internal and external. The frauds may be opportunistic attempts by individuals or systematic, well organized and premeditated. As well as diverting public money away from vital services, fraud can undermine the confidence of those who support and fund an organization. As such, fraud should be considered a key business risk. During 2012-2013 the Board has started to examine the robustness of entities' anti-fraud approaches, reviewing UNHCR, UNOPS and the United Nations.

Anti-fraud policies and strategy

57. All public organizations have a responsibility to develop anti-fraud policies and strategies, to show those seeking to defraud them that such action is unacceptable and will not be tolerated. Of the entities examined to date, only UNOPS has established an integrated counter-fraud strategy focusing on all types of fraud (both internal and external).

58. In its report on reporting cases of fraud or presumptive fraud in financial statements (2014/051), the Office of Internal Oversight Services has also raised concerns about the fragmentation of existing policies, procedures and guidance on fraud across the United Nations, which is consistent with the Board's assessment of the United Nations anti-fraud policies and guidance.

Fraud risk assessments

59. While it is impossible to detect all fraud, assessing the potential risks, scale of loss and exposure to fraud is an important first step in understanding if an organization has a problem. It enables an appropriate and proportionate response to be developed and helps determine the relative priority that should be given to tackling fraud.

60. Aside from the relatively recent work of the risk management units established in high-risk country operations, such as Somalia and Afghanistan, there is no evidence that United Nations system entities have thought through how to obtain a better understanding of the overall fraud threat they face. For example, the United Nations, UNHCR and UNOPS have not conducted a thorough assessment of their fraud risks. Without undertaking such an assessment, those organizations cannot understand the effectiveness of existing control measures, mitigate any problems, define their tolerance to different types of fraud risk or ensure that anti-fraud controls are proportionate.

Fraud reporting

61. The United Nations, UNHCR and UNOPS, in common with almost all other entities, have in recent years reported low levels of fraud compared with expenditure. Given the scale and complexity of global activity undertaken by those organizations, and the high-risk environments in which that activity takes place, the level of reported fraud is unlikely to reflect either the level or nature of the fraud risks faced.

62. For example, in the case of the United Nations, a total of 69 fraud cases with a value of $13.3 million have been reported to the Board over the last 10 years. This is equivalent to just over 0.03 per cent of expenditure over the same period. There is also a tendency for only minor internal frauds by staff members to be identified, due to the lack of guidance or understanding of the risk of external fraud. The full fraud exposure of United Nations operations globally is not yet understood, and is likely to exceed the cases being reported.

Investigation capacity and capability

63. During the biennium, seven cases of fraud emerged in relation to projects delivered by non-governmental organizations funded from the Common Humanitarian Fund Somalia. The fund is managed by the Office for the Coordination of Humanitarian Affairs, but involves multiple United Nations entities. In response, the Office has improved its selection and monitoring process in its Somalia operations by, for example, undertaking risk assessments of all implementing partners and developing a database that informs assessment of the inherent risk of a proposal due to project type, location and the implementing partner involved. The controls are still to be fully embedded in Somalia but are a positive step.

64. A review by the Joint Inspection Unit of the investigations function in the United Nations system (see A/67/140 and Add.1) identified that the absence of a single point of contact for reporting fraud cases across the United Nations system means that intelligence is not shared and allegations are not consistently evaluated. In addition, no authority is tasked with monitoring and following up investigation reports to see if action is taken and, if so, whether the action is proportionate. The Joint Inspection Unit concluded that a focal point should be tasked with this responsibility for the Organization as a whole.

65. The Board largely concurs with this view but also recognizes the many constraints under which the investigation units of different United Nations system entities operate; in terms of their remits and ability to share information and tackle frauds that have an impact on more than one entity, and in terms of their skills and capacity to analyse fraud risks and investigate more complex and systematic fraud cases. And that in some cases information sharing and referrals do occur.

66. The Board considers there may be a need for the investigation of serious fraud against the United Nations by external organizations to be consolidated or coordinated. Efforts to pursue fraud being committed by external parties are less effective when numerous agencies or investigative bodies are involved in pursuing suspected fraud by the same external party, as demonstrated by the Somalia example. In addition, sending numerous investigative teams into the same high-risk environment endangers the lives of the investigators themselves, and increasingly reduces the likelihood that subsequent investigations will find valuable evidence. Some United Nations system investigative bodies do not have the mandate or the skills to pursue fraud by external parties.

67. Investigative efforts, across a complex system of separate organizations, as is being seen in other international and national environments, need to be consolidated to be effective, and ideally carried out by one specialist unit appropriately equipped and trained to do the work on behalf of all organizations involved. Such units typically establish commonly applied sanctions and cross-debarment procedures so that when credible fraud by external parties is detected by one entity, other entities do not continue to do business with or disburse funding through that external party.

68. **The Board therefore suggests that the United Nation's System Chief Executives Board for Coordination consider the need for a United Nations system counter-fraud unit. Such a unit could assess fraud risks across the system using modern analytical techniques such as data matching, and have the ability (remit and skills) to take on deterrence, detection and investigation of more serious and systematic fraud risks working across organizational boundaries.**

Sanctions and deterrence

69. The entities examined have rarely pursued legal remedies in response to fraud. While there have been some high-profile legal prosecutions in the past, the majority of staff and external parties who commit fraud against the organizations are not typically pursued through the courts. There is no clear policy on when such action should be contemplated, nor is there evidence that legal action is considered as a matter of course, sending a strong message to potential fraudsters.

I. Cost-effective management of core business services

70. Like all organizations, United Nations entities are seeking skilled and professional staff in a highly competitive environment and so continuous improvement of human resources management is a given. However, the Board continues to highlight numerous and various deficiencies across entities in human resources management, asset management, procurement and contract management, and management of information and communications technology. These are all important business functions that are vital to the cost-effective delivery of the activities of the entities concerned.

Human resources management

71. To deliver their commitments and meet evolving operational needs effectively, organizations require a workforce that is dynamic, adaptable and mobile.

72. While in peacekeeping operations, vacancy rates and the average recruitment time had been reduced in response to concerns previously raised by the Board, across the wider United Nations, other consistent themes during the biennium were vacancy rates and the length of time taken to recruit staff and fill vacant posts. Target times for recruitment were found to be exceeded regularly at the United Nations, UNFPA and UNJSPF.

73. Other common themes related to the use of contractor services. For example, the Board's reports on UN-Women, UNFPA, UNICEF and UNDP identified the use of contractors to perform core staff functions (operations support, administration and finance assistant) or for roles intended for people with United Nations staff status. At UNICEF, commitments for consultants and individual contractors often remained open past contract expiration, which could have a negative impact on the use of available funds.

74. During the biennium, the General Assembly approved the United Nations proposals on mobility. This is an important development that will affect many entities, but only one step towards addressing systemic issues in the management of the United Nations workforce. For example, at the United Nations, the Board identified that few staff are categorized as failing to meet performance expectations and that there was limited evidence of action being taken to identify and address poor performance. The Board also found that some staff had not received an annual appraisal, an issue that has also been identified at UNJSPF and in peacekeeping operations.

75. Workforce planning provides management with a way to align the workforce with the business plan, anticipate change and address current and future workforce issues. However, the Board found that workforce planning at the United Nations does not reflect organizational needs or priorities because it is undertaken after the General Assembly has approved the budgeted posts. This means staff numbers do not reflect the Organization's strategies and missions, or anticipate future trends and workforce demands within departments. Similarly, the Board's report on peacekeeping operations also concluded that deployment of civilian staff was not sufficiently linked to delivery of a mission's mandate and operational requirements.

76. Organizations should provide opportunities for staff to learn and develop skills as their career progresses and organizational priorities change; but the Board found

that the United Nations lacks a centralized skill strategy and that there is no formal mechanism in place to coordinate learning and career development within and between departments. Related concerns were also identified through the Board's work at UNRWA, where staff involvement in defining training needs was limited, making it difficult to identify skills gaps that were impeding effective staff performance.

Asset management

77. The Board has noted continued problems in asset management with, for example, uncertainty over asset and inventory valuations, and high levels of unused assets. The Board notes the level of improving information on assets, and the increasing evidence this information is being used to improve operational performance, but also the continuing need for enhanced skills in asset management.

78. IPSAS has enabled significant values of inventory assets, which were unlikely to be collected or used to be impaired. The Board has also highlighted early benefits in its entity-level reports, for example, improved management of inventory and property, plant and equipment at UNHCR, and improved management of inventory in transit at UNFPA.

79. During 2012 and 2013, the Department of Field Support of the United Nations Secretariat continued to strengthen its management of property, with improvement apparent in several important areas, including physical verification rates for non-expendable property. However, some deficiencies in asset management remain, for example, assets unused on a long-term basis, and delay of disposal processes. The Board also identified the need to improve visibility of the levels of usable inventory and the information on usable inventory to better understand the demand for line items and to improve the accuracy and timing of acquisitions.

80. The Board also noted deficiencies in asset management at UNITAR. For example, 28 per cent of total non-expendable property in UNITAR headquarters was not found during the physical inventory, and investigations had not been conducted robustly. There were also cases of misclassification of non-expendable property. Deficiencies in the classification of inventory items were also identified at UNRWA.

Procurement and contract management

81. United Nations entities contract for goods and services because they have identified them as necessary for the successful delivery of their objectives. If procurement is not carried out in a fair and transparent manner, and/or the contracted goods and services are not delivered on time and according to specification, then not only is the value of the procurement compromised, but also the delivery of the related operational objectives may be delayed.

82. The Board has seen non-compliance in procurement activities, weaknesses in acquisition planning, high use of competition waivers, poor contract management, and a general lack of procurement and commercial expertise. For example:

- Inadequate procurement planning at UNRWA, the International Criminal Tribunal for Rwanda and UNU resulted in the inability to identify and achieve economies of scale through the consolidation of similar items into one contract/tender.

- In peacekeeping operations, a relatively high proportion of commodities was being purchased through system contracts (77.7 per cent in 2012), but there was no evidence of a central procurement strategy designed to maximize opportunities from consolidated procurement. Such opportunities were still identified largely at the mission level.
- High levels of use of competition waivers (UNRWA, UNU, peacekeeping operations), often resulted in the shortening of the tender period. Short tender submission timeframes lead to low vendor response rates due to there being insufficient time for bidders to prepare properly for the tender process and meet the delivery schedule. This limits the scope of competition among vendors, potentially reducing value for money and increasing the risk of fraud and corruption.
- There was insufficient utilization of vendor performance evaluation reports (peacekeeping operations) and deficiencies in supplier assessments at country offices (UNFPA).
- Procurement activities related to approval of contract variations were not complied with (UNRWA).
- The number of procurement staff with the required skills was insufficient, which resulted in the delegation of procurement functions to unskilled staff (UN-Women).

83. UNHCR is making progress in improving management of its supply chain, which is critical to its ability to operate effectively. There is further work to do to respond to all of the issues raised in the Board's previous examinations of procurement and vehicle fleet management.

84. UNOPS is improving how it manages procurement activity (both "transactional" procurement and within projects), but needs to do more to place price competitiveness and value added at the core of its strategy if it is to expand its procurement business. UNOPS must generate more complete information to demonstrate that it provides value for money. For example, it lacks sufficient key data to benchmark its results in terms of price and quality of service, compared with other United Nations entities.

85. Overall, the Board's findings point to the need for: enhanced skills in procurement and enhanced commercial skills to extract maximum value from commercial relationships; more complete information on procurement performance; and management of the supply chain in an integrated way that encompasses procurement, logistics and inventory.

Information and communications technology

86. During the biennium, the Board identified deficiencies in the control environment surrounding information and communications technology (ICT). For example, in UN-Women, a number of dormant user accounts had not been closed; delays in deactivating inactive users can increase the risk of unauthorized transactions which might affect the integrity of financial data and increase the risk of cyberattacks. Concerns about the adequacy of controls over user roles and user access control were also identified in UNDP and the International Criminal Tribunal

for Rwanda. The Board has also periodically noted similar deficiencies in peacekeeping missions.

87. In December 2012, the Board issued a report on the handling of information and communications technology affairs in the Secretariat (A/67/651). The Board found that the approach of the United Nations to delivering its ICT strategy had been unsuccessful, and it raised a number of concerns about the security of the Organization's information environment. The United Nations expects to issue a new ICT strategy for the Secretariat in September 2014 and has taken steps to improve its ICT security environment. The Board will undertake a review of progress made at a point when a revised ICT strategy has been approved and had time to embed.

J. Business transformation in the United Nations

88. Like many international organizations, the United Nations needs to find more cost-effective ways of delivering its activities to enable it to free up resources for redeployment towards the priorities of Member States. It is in the midst of a number of major business transformation activities, and the Board continues to report separately on three of the major projects: the capital master plan; the new enterprise resource planning system (Umoja); and the implementation of IPSAS. The Board has also reported on the implementation of the global field support strategy in its recent reports on peacekeeping operations.

89. In particular, the new enterprise resource planning system is at a critical juncture. In its most recent report (A/69/158), the Board highlights the significant achievement of the roll-out of the foundation phase in peacekeeping operations and special political missions, but also the vital need for lessons to be drawn from the significantly greater challenges than expected that have arisen in post-deployment, in particular: the need for greater focus on business readiness activities and the accountability of the heads of business units therefor; and the need for more achievable plans (budgets, timelines) that include sufficient contingency for risks and uncertainty.

90. Recognizing the immense challenge of simultaneously implementing major business transformations in the complex, highly federated and diverse environment of the United Nations, the Board has continued to highlight to senior management a number of common themes, such as: the need for an agreed and articulated vision for change; a realistic and holistic assessment of the ability of the United Nations to absorb change and deliver its ongoing mandates; and the need for more effective governance and accountability, benefits management, and improved programme and project management.

91. In its report (A/69/5 (Vol. I)), the Board has observed positive steps to improve the Management Committee's overall focus on business transformation including: improved progress reporting; improved senior management decision-making processes; and the identification of business transformation as a main enterprise level risk. At the project level, while recognizing that each project is dealing with a legacy of past decisions to varying degrees and that there are ongoing risks and significant challenges, the Board has seen a positive response to previous recommendations and evidence of good progress since its last report.

92. In terms of the overall management of transformation in the United Nations, the Board would highlight the following points that need to be addressed going forward:

- In terms of project management capacity, we see a strong focus (and a lot of skill and energy) on the technical delivery of projects, but less focus on the realization of benefits.
- In the light of previous problems, the Board considers that there is a good case for establishing an integrated and standing approach to independent project assurance. This should apply from the outset to ensure that projects make the best possible start, providing detailed and expert assurance to senior management to assist their oversight, but also on an ongoing basis at key stages through project life cycles. Otherwise the same problems and issues will keep recurring.
- At a broader level, there is evidence of a more strategic and collective grip by senior management on the direction and delivery of the strands comprising the overall transformation programme. But there also remain a lot of silos in the transformation programme, where improved strategic management and coordination is required to integrate the strands of transformation activity and adapt the approach over time.
- Embedding and sustaining the benefits that the various transformations potentially offer will require deep expertise in managing complex activities and organizational change, as well as very skilful and integrated management of ICT, commercial, human resources and estates.
- The governance, management and accountability structure of the United Nations needs to promote transformation and embed new ways of working. While the Board sees improvements, in particular on the new enterprise resource planning system which is forcing management to work together across the Organization, it remains unclear whether senior management is able to sufficiently mandate cooperation with centrally driven programmes or to direct effective cooperation among subsidiary and related entities.
- At an operational level, the development of an organizational approach to continuously improving business processes would help to ensure that the various transformation initiatives are channelled by staff "on the front line", who understand the operational difficulties they face, into coherent and consistent ways of working.

93. The Board continues to see a need for more clarity on the target operating model the transformation projects, in particular the new enterprise resource planning system, are meant to facilitate and support, to help foster buy-in from staff and Member States. It should articulate, at least at a high level, the optimal organizational structure including: what work is performed where, by whom, using which defined processes, agreed policies and business rules. This is a challenging issue, but progress here will support enterprise resource planning system implementation as well as other enterprise-wide activities, such as the new ICT strategy. It will also strengthen the Organization's ability to secure benefits, reduce the risk of expensive retrofitting post-implementation, and enhance accountability for delivery.

94. UNDP is planning a major transformation of its operations, which will involve relocation of functions and staff to different work stations and regions. The aims of the restructuring include improvement of institutional effectiveness to meet the objectives of strategic plans, to promote better integration, both functionally and geographically, through strengthening the regional presence of UNDP, consolidation of the policy functions, and rationalization of management support and improvement of management-staff ratios. The Board will consider the need to comment in its future reports on the management of results and lessons from this important initiative.

K. Status of implementation of previous recommendations

95. The Board sets out in each of its reports the status of implementation of recommendations for the previous financial period, categorized as recommendations that are: (a) implemented; (b) under implementation; (c) not implemented; or (d) overtaken by events. A summary of the overall position for the 19 entities included in this report is contained in annex III.

96. From 2015, following the full implementation of IPSAS, the Board will report on all entities on an annual basis. The present report is being produced during a transitional year, with 10 entities[5] reporting on an annual basis, and nine[6] reporting on a biennial basis. This makes a like-for-like comparison of implementation rates problematic because of the following differences:

- For the nine entities reporting biennially, recommendations made by the Board in its reports for the biennium 2010-2011 reflect the status of implementation as at 31 March 2014.
- For the 10 entities reporting annually, recommendations made by the Board in its reports for the year 2010-2011 reflect the status of implementation as at 31 March 2013.

Overall status of implementation of recommendations

97. The Board's aim is to provide clear, objective, evidence-based and actionable recommendations that add value to management and operations. The figure shows the overall status of implementation as at 31 March 2014[7] for recommendations made in the biennium 2010-2011 and the comparative result for 2008-2009. The overall proportion of fully implemented recommendations for the 19 entities was 56 per cent for 2010-11 (2008-09: 65 per cent). A further 40 per cent of recommendations (28 per cent: 2008-09) were under implementation, leaving 2 per cent on which management made no progress, and 1 per cent that were overtaken by events. Further details are provided in annex III.

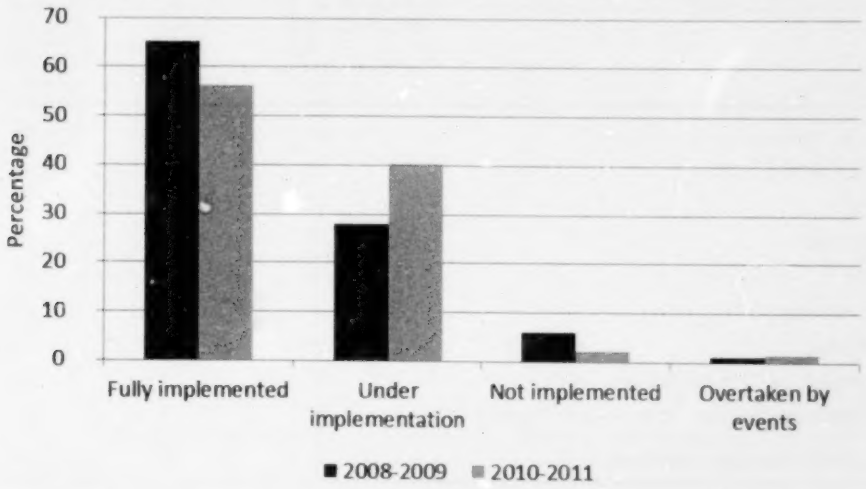
[5] Peacekeeping operations, UNICEF, UNDP, UNRWA, UNFPA, UNJSPF, UNOPS, UNHCR, UN-Women, UNCDF.

[6] United Nations, ITC, UNU, UNITAR, UNEP, UN-Habitat, UNODC, International Criminal Tribunal for Rwanda, International Tribunal for the Former Yugoslavia.

[7] 31 March 2013 for the 10 entities that report annually.

Figure

Comparison of the overall status of implementation of recommendations between bienniums 2010-2011 and 2008-2009



Source: Board of Auditors.
Note: Status as at 31 March 2014.

98. The Board considers the full implementation rate of 56 per cent for all 19 entities, 21 months after reporting, to be evidence of strong management commitment. This is also confirmed through our ongoing engagement with client entities. Furthermore, there has been a significant increase in the percentage rate of full implementation in the nine organizations over time.

99. Table 5 illustrates that for the nine entities that report on a biennial basis only, on average 62 per cent of recommendations were fully implemented 21 months after first being made. This is an increase over the implementation rate of 59 per cent for recommendations made in 2008-2009 at the same point (21 months later). For example, of the 32 recommendations made to the United Nations in the 2010-2011 biennium, the 41 per cent implementation rate reported at 31 March 2013 (nine months after the recommendation was made) has since increased to 63 per cent one year later.

Table 5
Analysis of the rate of implementation of recommendations made for the biennium 2010-2011 over time (per cent)[a]

Organization	*After nine months As at 31 March 2013 (A/68/163)*	*After 21 months As at 31 March 2014 (A/69/178)*	*2008-2009 recommendations after 21 months (for comparison)*
United Nations Secretariat	41	63	60
ITC/UNCTAD/WTO	15	55	33
UNU	25	63	53
UNITAR[b]	33	0	60
UNEP	44	92	62
UN-Habitat	56	56	55
UNODC	39	54	33
International Criminal Tribunal for Rwanda	70	90	86
International Tribunal for the Former Yugoslavia	67	83	90
Average implementation rate	**43**	**62**	**59**

Source: Board analysis of 2010-11 recommendations.

[a] The table includes only the nine entities that produce financial statements on a biennial basis to enable a like-for-like comparison.

[b] One of three recommendations (33 per cent) made to UNITAR was judged implemented at the interim audit stage in March 2013. At final audit, this recommendation was found not to have been fully implemented and status was changed to "under implementation".

Emerging cross-cutting themes

100. The Board has consistently maintained that because its recommendations cover a wide range of topics, reflect differing assessments of risk and differing extents and intensity of coverage at different entities across time, that an analysis of numerical trends is misleading. Conscious of the interest of the Fifth Committee in the scope for further insights in this regard, the Board performed a high-level analysis to identify any emerging cross-cutting themes in its report dated 18 July 2013 on the status of implementation of its recommendations relating to the biennium 2010-2011 (A/68/163). The analysis focused on the same set of recommendations as the present report (biennium 2010-2011), but covered only the nine entities that report on a biennial basis. The Board has reperformed this analysis across the areas of recommendation in all 19 entities covered in the present report, and found that the key themes remain valid and are commented on in the relevant parts of the present report:

- The need to improve governance, accountability and internal control (sect. E);
- The need for enhanced skills in important functions (sect. I);
- The need for integrated supply management (sect. I);
- The need for enhanced programme and project management (sect. J);
- The need for enhanced financial management (sect. D);
- Managing implementing partners (sect. G).

L. Acknowledgement

101. The Board wishes to express its appreciation for the cooperation and assistance extended to it and its staff by the United Nations Secretariat and the funds and programmes.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General
of the United Republic of Tanzania

Annex I

Organizations or topics audited

Organization	*Lead auditor*
United Nations (A/69/5 (Vol. I))	United Kingdom
United Nations peacekeeping operations (A/68/5 (Vol. II))	China
United Nations new enterprise resource planning system (Umoja) (A/69/158)	United Kingdom
Capital Master Plan (A/69/5 (Vol. V))	United Kingdom
Progress on implementation of IPSAS (A/69/155)	United Kingdom
ITC (A/69/5 (Vol. III))	United Kingdom
UNU (A/69/5 (Vol. IV))	China
UNDP (A/69/5/Add.1)	United Republic of Tanzania
UNCDF (A/69/5/Add.2)	United Republic of Tanzania
UNICEF (A/69/5/Add.3)	China
UNRWA (A/69/5/Add.4)	United Republic of Tanzania
UNITAR (A/69/5/Add.5)	China
UNEP (A/69/5/Add.7)	United Republic of Tanzania
UNFPA (A/69/5/Add.8)	United Republic of Tanzania
UN-Habitat (A/69/5/Add.9)	United Republic of Tanzania
UNODC (A/69/5/Add.10)	United Kingdom
UNOPS (A/69/5/Add.11)	United Kingdom
International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994 (A/69/5/Add.13)	United Republic of Tanzania
International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991 (A/69/5/Add.14)	United Republic of Tanzania
The International Residual Mechanism for Criminal Tribunals (MICT) (A/69/5/Add.15)	United Republic of Tanzania
UN-Women (A/69/5/Add.12)	United Republic of Tanzania
UNJSPF (A/69/9, annex __)	China
Voluntary funds administered by the United Nations High Commissioner for Refugees (A/69/5/Add.6)	United Kingdom

Annex II

Explanation of types of audit opinions

Unmodified	*Modified*		
	Qualified	*Adverse*	*Disclaimer*
An unmodified opinion implies that the financial statements of the auditee are prepared, in all material respects, in accordance with the applicable financial reporting framework, i.e., the United Nations System Accounting Standards in the case of the United Nations and its funds and programmes.	A qualified opinion implies that the auditor, who having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements, or that the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.	An adverse opinion implies that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements based on sufficient appropriate audit evidence.	A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. A disclaimer of opinion shall also be issued when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding his or her having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements owing to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Note: "Emphasis of matter" is to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.

"Other matter" is to draw attention to any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Annex III

Status of implementation of the recommendations of the Board of Auditors for the biennium 2010-2011 as at 31 March 2014

Organization	*Number of recommendations*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
United Nations	32	20	11	0	1
Peacekeeping operations[a]	38	18	20	0	0
ITC	20	11	7	1	1
UNCDF[b]	28	23	5	0	0
UNDP[b]	33	8	25	0	0
UNEP	24	22	2	0	0
UNFPA[b]	33	10	19	3	1
UN-Habitat	16	9	4	2	1
UNICEF[b]	26	18	7	0	1
UNITAR	3	0	1	1	1
UNHCR[b]	52	12	38	2	0
UNJSPF[b]	28	20	8	0	0
UNODC	26	14	11	1	0
UNOPS[b]	20	7	13	0	0
UNRWA[b]	36	29	7	0	0
UNU	8	5	3	0	0
UN-Women[b]	28	23	5	0	0
International Criminal Tribunal for Rwanda	10	9	1	0	0
International Tribunal for the Former Yugoslavia	6	5	1	0	0
Total	**467**	**263**	**188**	**10**	**6**
Percentage	**100**	**56**	**40**	**2**	**1**
Total (2008-2009)	**676**	**437**	**54**	**6**	**10**
Percentage (2008-2009)	**100**	**65**	**8**	**1**	**1**

Note: The difference between the total number of 470 recommendations and the 318 recommendations included in the latest report on the status of implementation of recommendations (A/68/163) is explained by 38 recommendations on peacekeeping operations, 52 on UNHCR, 28 on UN-Women, an increase in 8 recommendations for UNEP and a decrease of 2 recommendations on UNODC.

[a] The United Nations peacekeeping operations have an annual financial cycle ending 30 June; therefore, the figures reported are for recommendations made up to 30 June 2012.

[b] These entities have an annual financial cycle; therefore the figures reported are for recommendations made up to and including 31 December 2012. From next year, all entities will report on an annual cycle.